



California High-Speed Rail Authority

Overview of Responses to the Request for Expressions of Interest (RFEI)



Infrastructure
Management Group, Inc.
& Lehman Brothers Team

In Partnership with:

Sperry Capital
Jack Faucett Associates
CDS Consulting
Dutch Ventures LTD

June 11, 2008

Request for Expressions of Interest (RFEI)



Responses to the RFEI have met the Authority's objectives to further the dialogue with major P3 players.

Disseminated project information

- Major private parties have a better understanding of the technical and financial requirements of the project.

Solicited specific information about critical issues

- Respondents' answers will help to shape attractive P3 opportunities to the benefit of the project.

Continued dialog on private funding

- The Authority is developing relationships with private funding sources that it can leverage to support the development of the project.

RFEI Responses



On May 1, 2008, the Authority received 30 responses to its RFEI from leading P3 players in international rail.

Narrative Response Participants	
Contractors	8
Equipment Providers	5
Operators	5
Financial Institutions	3
<i>Total</i>	<i>21</i>

➤ 11 Construction Firms

Acciona, Balfour Beatty, Bouygues, CH2M Hill, Flatiron, Fluor, Hill Int'l, Inabensa, Kiewit, Parsons, Vinci

➤ 7 Systems and Equipment Providers

Alstom, Bombardier, Italferr, RTT, Siemens, Sumitomo, Talgo

➤ 5 Financial Institutions

Babcock & Brown, Carlyle, Goldman Sachs, HSH Nordbank, Meridiam

➤ 5 Operators

ACD ID, SNCF, Stagecoach, Veolia, Angel Trains

➤ 2 Other respondents

1 law firm, 1 interested citizen



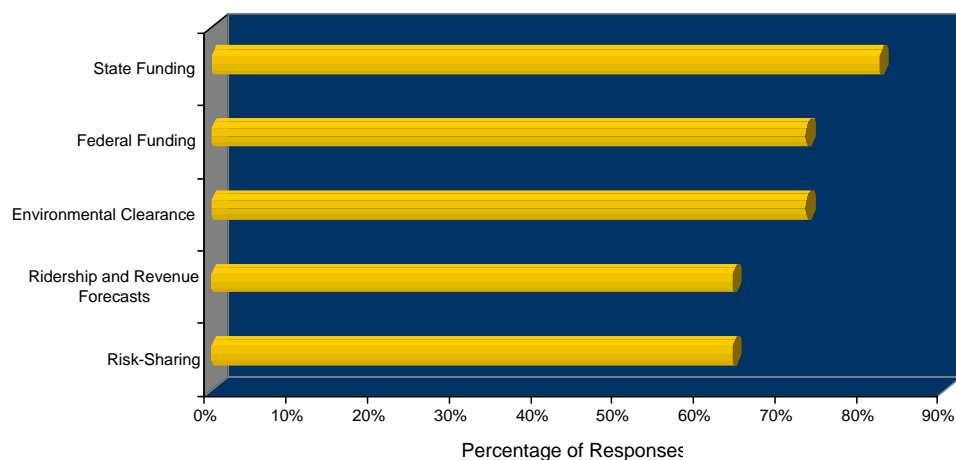
RFEI Survey Responses: Contractors



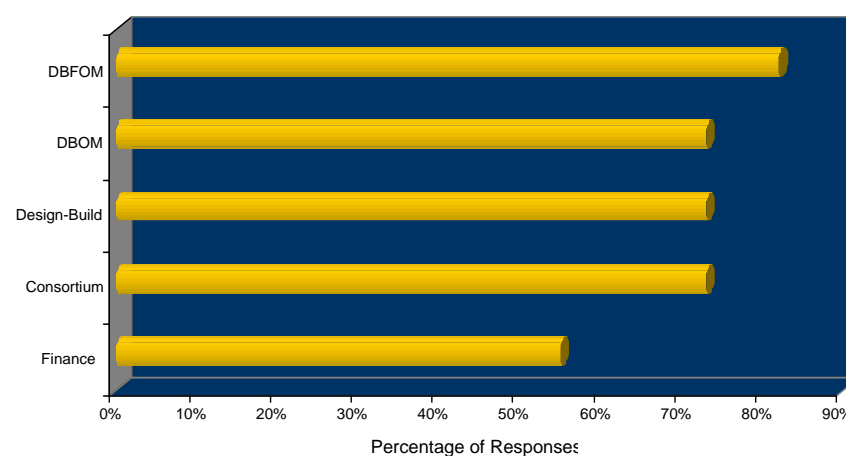
The 11 contractors have significant experience with international rail, DBFOM arrangements, design-build, and developing consortia.

- ***Public funding*** and ***environmental clearance*** are among the most important criteria for their participation.

Key Criteria for Participation



Key Areas of Interest



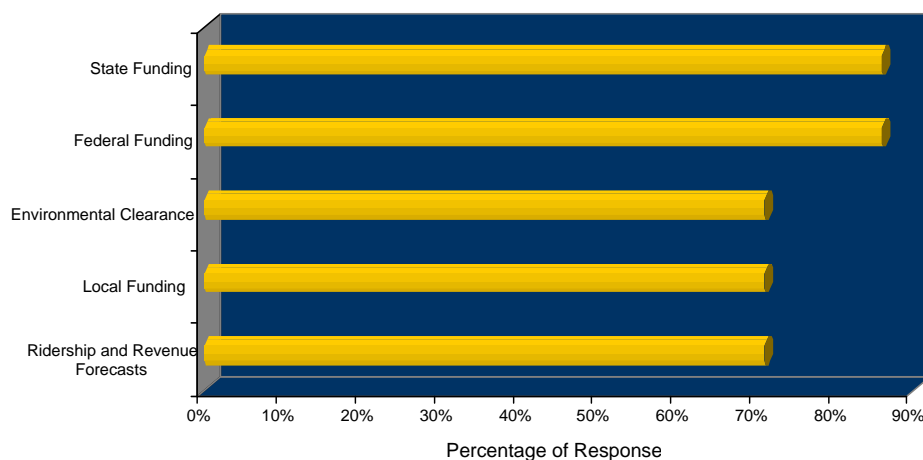
RFEI Survey Responses: Systems and Equipment



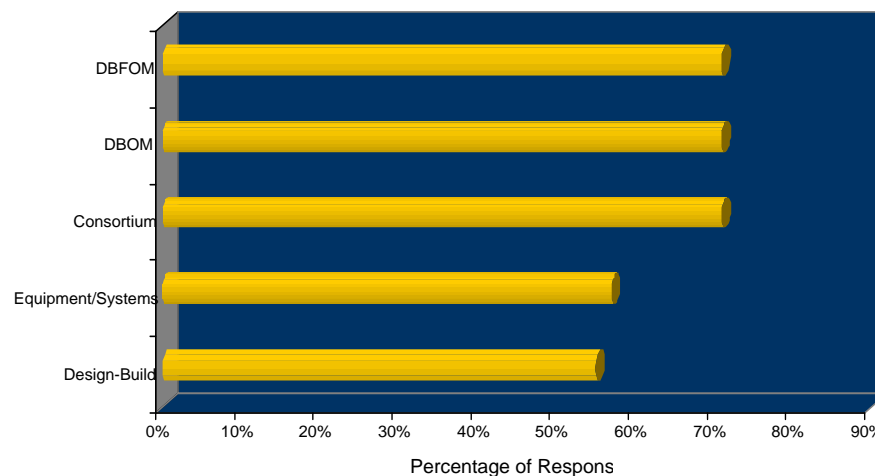
The 7 equipment and systems providers have participated in design-build, DBOM, or DBFOM engagements.

- ***Ridership and revenue forecasts*** and ***public funding requirements*** are the most important criteria for their participation.

Key Criteria for Participation



Key Areas of Interest



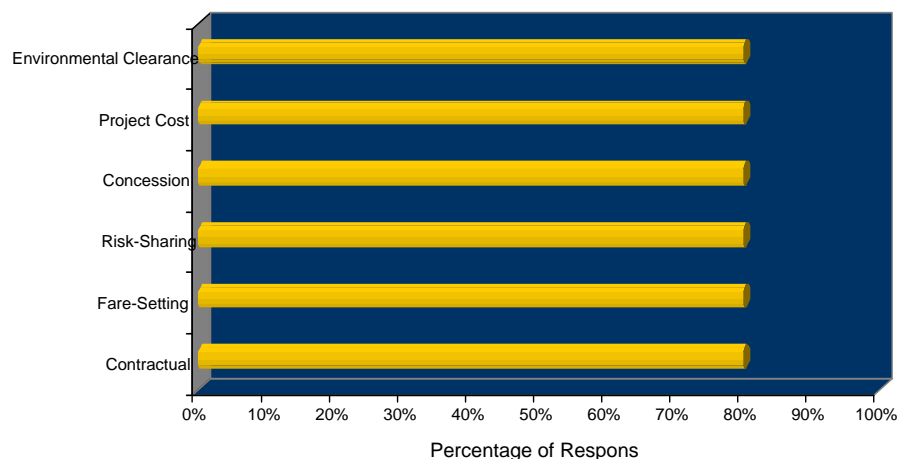
RFEI Survey Responses: Financial Institutions



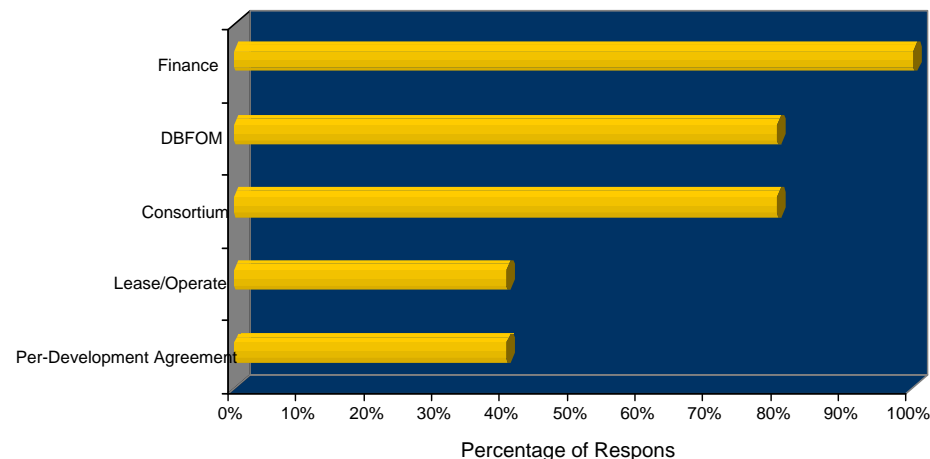
The 5 financial institutions have worked on transportation projects in the US and abroad.

- ***Environmental clearance, risk sharing arrangements, and fare-setting*** are of highest importance.

Key Criteria for Participation



Key Areas of Interest



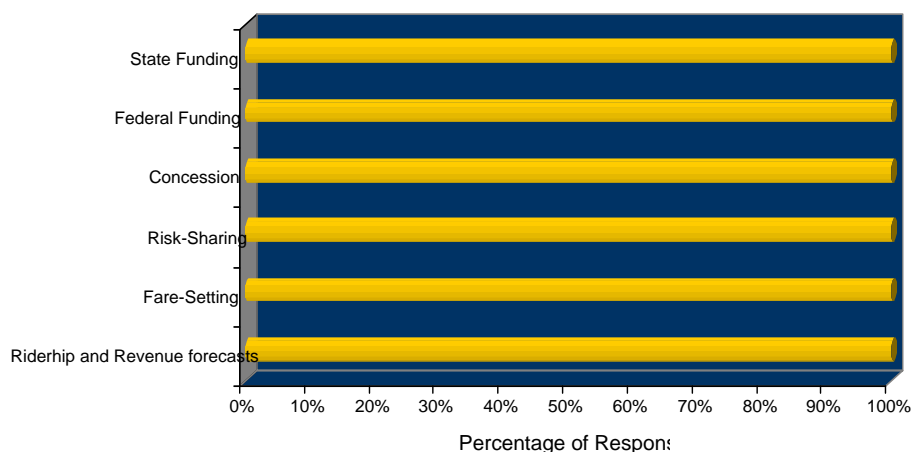
RFEI Survey Responses: Operators



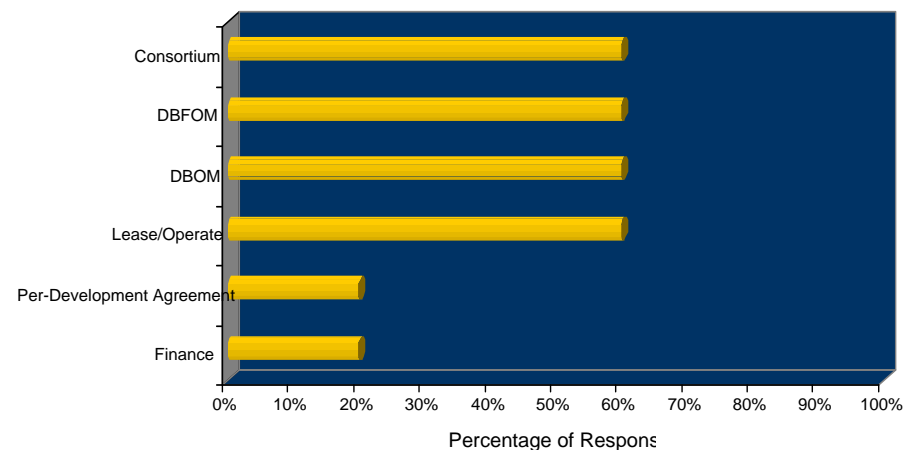
Each of the 5 system operators has international rail experience.

- ***Risk sharing, concession arrangements, and fare-setting*** are important to these operators.

Key Criteria for Participation



Key Areas of Interest



Public Funding Requirements



RFEI respondents strongly indicated that commitment of public funds is necessary for their continued interest in the project.

- Many respondents cited expected public funding to be between 60 and 70 percent of total project cost.
- Several firms stressed that they would participate only after a strong commitment from State, federal, and local funding sources.

Federal Funding Required

- **100%** of Equipment Manufacturers
- **100%** of Operators
- **75%** of Financiers
- **89%** of Contractors

State Funding Required

- **100%** of Equipment Manufacturers
- **100%** of Operators
- **75%** of Financiers
- **100%** of Contractors

Legislative Requirements



Clear P3 legislation specific to the project is seen as vital to its success.

- Strong and clear legislative support is seen as critical for interested firms to commit the resources necessary to developing a detailed project proposal.

Legislative Areas of Concern Addressed in RFEI Responses

- Local political climate
- Safety regulations
- Right of way acquisition
- Track access provisions
- Cost of complex requirements
- Pre-development agreements

“Most public procurement codes focus on low-bid awards for commodities and are not appropriate for the evaluation, award and administration of very complex, long-duration PPP projects.”



Project Structuring: Concession Approach



Respondents welcome a concession approach due to the need to align the private sector's interests with those of the Authority.

- Clear recognition of the Authority's focus on the long-term delivery of high-speed rail service to California.
- Concerns are related to the size of the project and its feasibility.
- Structuring the project will be critical to addressing these concerns.

Concession Benefits

- Minimize integration risk
- Single point of responsibility
- Schedule and budget certainty

Concession Considerations

"Concessions are not a panacea for an underfunded and/or unfeasible project. The project and/or the asset needs to be able to support a business case for private investment."

Project Structuring: Segmentation



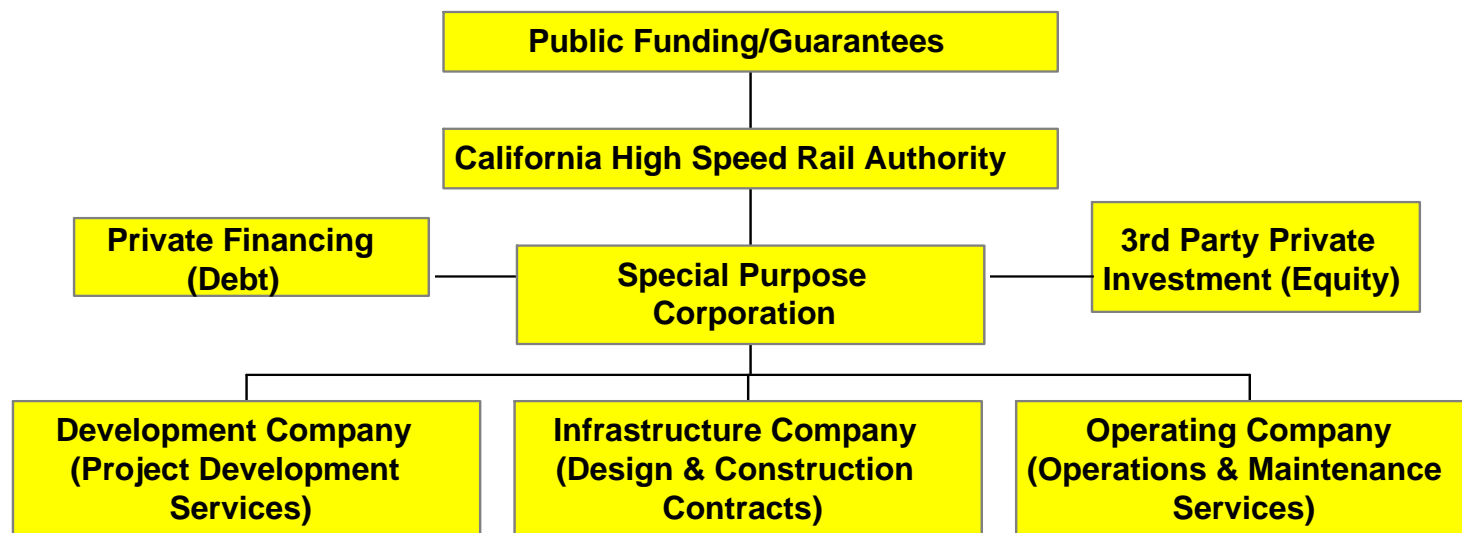
The majority of RFEI responses focus on functional, rather than geographic project segmentation.

- Most firms recognize the need to split the project into manageable pieces due to its size, while stressing the importance of integration.
 - *“Contracting with multiple parties for different pieces will lead to integration risk for the Authority and avoiding this risk is one of the primary potential benefits of a P3 approach.”*
- Firms are in agreement that operations and equipment and systems should not be split across geographic segments.
 - *“From an operational perspective, the project is clearly one system, and needs to be operated and coordinated as such for maximum efficiency.”*
- Civil works is one of the functional areas where respondents advocated geographic segmentation.

Project Structuring: DBFOM



Public-Private Partnership
Design-Build-Finance-Operate-Maintain (DBFOM) Model



“It is in the High Speed Rail Authority’s best interest to have a single point of responsibility for the finance, development, construction, and operation of the entire system.”

Procurement Process



An efficient and competitive procurement process will result in the greatest possible value of private participation to the Authority.

- Firms indicate the time-intensive nature of a procurement potentially requiring up to one year for an RFP process.
- The payment of a stipend is seen as important, largely due to its value as a signal of the seriousness of the public agency.
- RFEI respondents have differing opinions on the use of a Pre-Development Agreement (PDA).
 - Benefits: need to engage the private sector early in the process due to the complexity of the process
 - Considerations: potential to limit competition, increasing costs to the Authority

Performance Bonding



RFEI respondents indicated that the Authority may have to rely on alternate methods for guaranteeing performance outside of traditional performance bonding.

- Given the size of the project, surety companies will likely not be able to provide performance bonding at or close to 100 percent of project costs.
- Letters of credit and parent company guarantees are seen as alternative approaches.
- Financiers and contractors pointed out that if private financing is involved, lenders will require liquid security from contractors, making government bonding requirements duplicative and costly.

Ridership Risk



While several respondents are willing to accept ridership risk, firms expressed a need for limitations on ridership-based compensation.

- Several firms stated that they would accept ridership risk under the right conditions...
 - *“Having an acceptable band of operation beyond which the state will support or benefit from the service may be a workable mitigant.”*
- While others seem unlikely to participate in this aspect of the project...
 - *“Conceptually, we are much more keen to work under a performance-based structure as opposed to a volume or ridership structure.”*

Ridership Risk: Mitigating Factors

- Investment grade revenue study
- Banded ridership risk
- Fare setting capability
- Revenue guarantees

Availability Payments



Availability payments may be a crucial financing mechanism employed in the construction of the project.

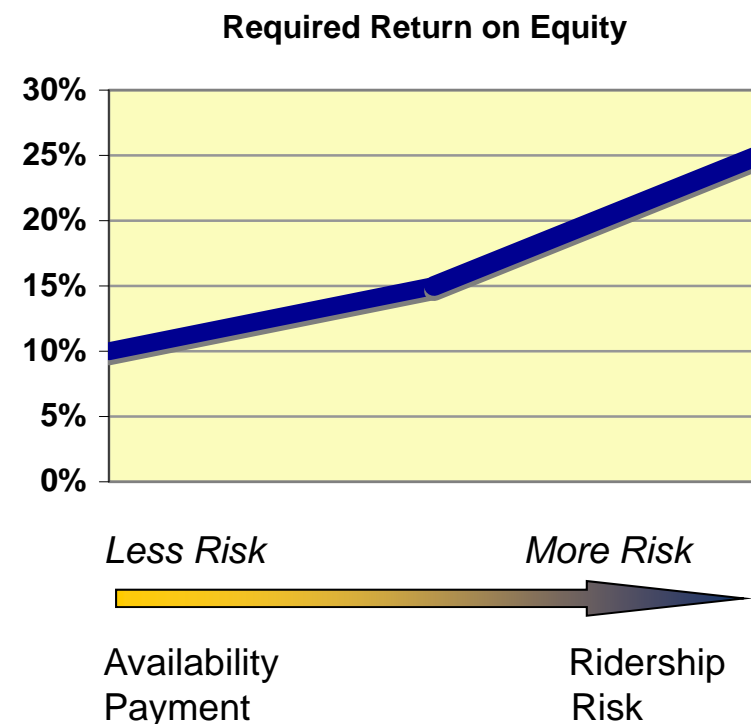
- In an availability payment structure, a contractor would receive payments from the Authority over time to reimburse capital expenditures and ensure ongoing performance.
- Several firms indicated that availability payment mechanisms will be 'critical' to successful private sector involvement.
- Respondents are in agreement that repayment via availability payments is less risky than repayment through farebox revenues.
 - Firms are willing to accept risks associated with availability payments; however, this risk must be limited to factors under their control.

Equity Investment



Among respondents, a *minimum* return in the low- to mid-teens is required on any equity investment made in the HST project.

- Required returns subject to availability payment were lower than ridership revenues due to lower perceived risk.
- Several respondents elected to keep equity returns confidential.
- One respondent argued that “a good competition will place downward pressure on returns.”



Conclusions



The RFEI process demonstrates that there is substantial interest in the project from the private sector.

- Several firms stress that they would participate only after a strong commitment from State, federal, and local funding sources.
- Securing a legislative mandate and clear P3 legislation will be necessary to keep the private sector involved.
- Although there is certain to be some geographic segmentation of civil works, firms stress the need for seamless integration of operations.
- DBFOM may be the preferred overall approach, but the project may require a combination of project delivery methods.
- Availability payments are widely accepted by potential participants and will help ensure performance of contractors.
- Although firms are willing to invest equity subject to ridership risk, there is limited appetite for this type of investment.

Next Steps



The Financial Plan team will continue enhancing the financial plan through several concurrent efforts:

- Build robust financial model including revised Project and financing assumptions to evaluate P3 structures
 - Further analysis of RFEI responses
 - Continued examination of comparable projects
 - Work with Program Manager to refine Project assumptions
- Evaluate risk-reward tradeoffs of different alternatives and estimate costs and risks to the State
- Support for expanded funding strategies at the federal level
- Present revised financial plan including above analyses